

MAYOR'S SPEECH FOR DRAFT BUDGET TABLING ON 28 MARCH 2022

Good morning, Speaker, Aldermen, Deputy Mayor, Chief Whip, Councillors, Acting Municipal Manager, Directors, Officials, Members of the Media and Members of the Public

I am today tabling the multi-year Draft Capital and Operating Budget for 2022/23 to 2024/25 in terms of Sections 16(2) and 17(3) of the Municipal Finance Management Act (Act 56 of 2003).

In tabling this budget, it needs to be credible in terms of activities consistent with the IDP given the financial constraints, what is achievable in terms of service delivery and performance targets, that our revenue and expenditure projections that are consistent with past performance which would not jeopardise the financial viability of the municipality.

We have accordingly taken into account the state of the SA economy as well as that of the region and George, the stage of post Covid-19 recovery and its impact on our community. At the same time, we have to address our ageing infrastructure and the requirements to increase the treatment capacities for the supply of water and for wastewater.

We are constantly faced with the risks of ongoing problems with Eskom's operations and constant disruption in the supply of electricity to households and businesses. We have been forced to invest in purchasing standby generators for various sewer pump stations to mitigate the impact of load shedding.

The rainstorm and flooding of 22 November 2021 resulted in substantial damage to infrastructure with claims running into hundreds of millions of rands being made for disaster relief. In the meantime, immediate repairs had to be undertaken with further funding made available during the Adjustments Budget. In this budget we will again need to continue to spend on such repairs in anticipation that disaster relief funding will materialise in the future.

We strive to maintain a high standard of service delivery in George. Over the past five years we have experienced pressures on the capacity of our wastewater treatment works while also recognising the need to increase the capacity of water treatment works. In addition, we are experiencing in-migration of citizens who are settling in George. Towards the end of 2021 we were informed that George was awarded a BFI (Budget Facility for

Infrastructure) grant of almost R1,2 billion to upgrade our water infrastructure. I have requested Cllr Wessels to briefly summarise the components and timing of this Grant in his speech.

The receipt of this Grant has necessitated an entire review of our Capital Budget over the next five years to re-assess the Municipality's capacity to spend and the urgent needs to address the ageing infrastructure within our water, sewerage, electricity, roads and stormwater networks.

It is a given that well-maintained Infrastructure and a high standard of reliable services being delivered is the key driver to attract Investment to a municipality. It is ultimately our objective that investment will stimulate economic activity bringing an increase in employment levels, i.e., Jobs.

It is therefore imperative that we focus on the delivery of our core services. In practical terms, for municipalities of our size to deliver the core services including a capable, productive administration that is highly effective in providing town planning, economic development and tourism services, ensuring safe and clean environments, it needs to be spending 95-97% on this basket of services.

George is now on the threshold of the transition of shifting into its role of becoming a significant intermediate city. As our requirement to spend more on capital budgets increases, our tariff structures also need to make allowance for increased maintenance, funding for repayments of long-term loans to fund these acquisitions and the generation of internal funding.

The analysis of our budgetary needs has brought realisation that we need to improve our data analysis and billing systems, to ensure that our consumers are billed correctly and are contributing to the revenue according to tariff policies. We need to sharpen our credit control and debt collection processes.

We are increasingly having to invest more in technology so that decisions are driven by data-based evidence. We are accordingly spending more to upgrade our meters and telemetry, expanding our CCTV cameras to ensure that our citizens live in safer environments.

The incidents of load shedding caused by the unreliability of Eskom's electricity supply are causing damage to our infrastructure as we have seen with our water network and sewerage spillages. In this draft budget we have allocated R170m towards the installation of a 10MW solar PV plant with the objective that this

project will assist in relieving George from Stage 1 and later Stage 2 of loadshedding. It is aimed to have the first 1MW in operation by June 2023.

In addition, we will be installing solar PV plants to generate 1,35MW at our facilities in 2022/23 at a project cost of R27,3m and a further 1,25MW At a cost of R23,5m thereafter. Projects have also commenced to provide uninterrupted power supply to traffic lights and energy saving to streetlights.

A Request for Proposals for Independent Power Producers was also issued that closed in January 2022. Some of the proposals if implemented will no doubt assist in reducing our reliance on Eskom.

Ideally, we need base load energy production projects that can provide electricity on a 24-hour basis. Storage capacity once cost effective will also enable extending the day beyond sunlight hours.

It is planned to fund our investment by utilising loan facilities over approximately five years that will pay off the plant acquired. The municipality utilises roughly 8% of its bulk purchases for own use and once operational, the funds spent on monthly purchases will instead simply be transferred to the loan repayments. After repaying the five-year loan, the R50-60 million per annum can be utilised for other essential services.

Capital Budget

Over the 3-year MTREF we are budgeting to spend R2,5 billion on Capital Expenditure with R784,773 million to be spent in the 2022/23 financial year.

Civil Engineering Services will receive R543,256m of this amount.

At Streets and Stormwater, we plan to spend R150,1m with R33,6m going on GIPTN roads rehabilitation, R28,2m in Thembaletu on streets and stormwater.

In Pacaltsdorp, R15,2m will be similarly spent. R20m will be spent on repairs to slip failure, mainly on the Rooidraai Road in Herold's Bay.

R33m will be spent on resealing, rebuilding and upgrading roads elsewhere in George (including Haarlem) with R10m being spent on stormwater upgrades including in George South.

On Water Networks we will be spending R56,4m and R198m at Water purification.

R29m will be spent on new bulk and smart meters, telemetry and valves with R17m being spent on network rehabilitation including in Uniondale.

R156,7m will be spent at the extension to the Water Works and R7,8m on a generator at the Garden Route dam pumpstation.

R35m will be spent on the Schaapkop and Meul pumpstation upgrades with another R97m earmarked in the outer years with R10,4m be spent on Thembaletu Pumpstation 6 with a further R37,8m in the outer years.

At Sewerage Treatment Works R52,6m will be spent in 2022/23. R10m will be spent on the 10MI addition at the Outeniqua works and R17,5m at the Gwaiing Works.

This spending on the Outeniqua Wastewater Treatment Works will conclude this upgrading project.

At the Outeniqua WWTW R12,5m needs to be spent on flood damage repairs for a donga that was created.

At Electro-Technical Services R151,1m will be spent in the coming year.

R33m of INEP Grant needs to be spent this year on the Thembaletu-Ballots Bay 66/11KV substation. I would like to urge the Thembaletu councillors to emphasise the urgency of getting this project progressed.

R15m will be spent on the new Glenwood 20MVA transformer.

R5,6m will be spent on reticulation schemes in informal areas and R8,7m on reticulation of the Metro grounds with R4,1m being spent on the UISP formal areas underground connection.

As mentioned, we will be embarking on a 10MW renewable energy project with R170m earmarked over 3 years with the plan to have 1MW already installed by June 2023. Further solar PV plants to provide 1,35MW will be installed at municipal facilities in 2022/23 to the value of R27,3m.

An additional 0,75MW and 0,5MW will be installed in the two outer years at our facilities to the value of R23,5m.

Community Services will be allocated R36,6m with R4m allocated to the building of a composting facility. Two Refuse Truck Compacters will be acquired at R3,6m and a bulldozer for R4m.

Protection Services will receive R36,8m with R11,3m allocated to expand our CCTV camera network.

R17m will be allocated to the remaining Directorates.

Operating Budget

I will now turn to the important Operating Revenue and Expenditure Budget for 2022/23.

The determination of Tariff increases is driven to a large extent by the electricity bulk purchase increases approved by Nersa of 9,61% and salary increases of 4,9% approved by the Bargaining Council for municipal employees.

The increased emphasis that we are placing on infrastructure renewal and expansion will also require adjustments to tariffs in excess of the generally regarded 3-6% inflation band.

It is proposed to increase

Electricity tariffs by 8%.

Property Rates by 8%.

Water by 10%.

Sanitation and refuse by 9%.

Other service tariffs will generally increase by 6%, although each individual tariff has been re-assessed to become more cost reflective as many of the present tariffs are out of line in relation to the costs for many of these services.

The budgeted revenue from Services and Rates for 2022/23 is R1775m compared to R1622m for 2021/22.

If the Revenue generated from electricity is excluded, R812m flows from the other sources as compared to R747m in 2021/22. Every increase of 1% is therefore only R8m. In order to undertake the improvements to services that are necessary, tariffs have therefore had to be increased above the 6% level.

Total Revenue is budgeted to increase to R3242m while Budgeted Expenditure is set at R2871m from the 2021/22 budgeted figures of Revenue of R2802m and Expenditure of R2626m.

The budgeted expenditure on Bulk Purchases of Electricity is R667m and R731m for Employee Related Costs.

New basis for Electricity Tariffs

It is proposed that the basis of electricity tariffs be changed from a unit charge per kilowatt-hour to a fixed charge and a lower per kilowatt-hour charge.

George is one of the last municipalities to still levy the per Kwh charges. All our surrounding municipalities in the Western Cape have already made the transition. We have done the Cost of Supply study required by Nersa but have not yet implemented these changes for the past few years.

With the continuous increases in Eskom tariffs the use of renewables has become more affordable. As a result, businesses and private consumers have started to migrate to renewables resulting in a loss of good customers to municipalities including George. It is critical that the electricity infrastructure be maintained. George's electricity network has a value exceeding R2 billion. It is therefore important that this network be maintained. This is the reason for the fixed charge.

Our planned move to the two-part basis of charging will also involve the encouragement to "shift the load". This entails consumers focussing to consciously save ampere usage through not overloading the electricity system. Simultaneous usage of geysers, ovens, tumble-dryers and hairdryers increases the ampere load. The tariff charges of Eskom on municipalities are based on the highest maximum usage at peak times. If we can reduce these maximum charges, the prices paid to Eskom will decline.

In the shift to fixed charges, domestic consumers will be levied at 40 amperes and charges per ampere. If they wish to reduce their amperes to 20 or increase to 60 amperes this will result in either cheaper or higher charges. In this way all consumers can contribute to lower MVA (mega volt ampere) charges from Eskom making it easier to avoid loadshedding stages.

Indigent users and those consumers using up to 400 Kwh per month will remain on a per Kwh charge as at present using 20 amperes. If you use above 400 Kwh

as a domestic consumer, charges will shift to a basic charge of R75,19 per month, R4,54 per amp (R181,60 per month on 40 Amps) and an energy charge of 210,04 cents per kWh.

In the example of using of a household using 600 kWh per month, my estimate is that the increase will equate to 7% as opposed to the overall 8% in the proposals being tabled.

An intensive campaign will be undertaken to explain the new electricity tariffs to all our consumers in the next few weeks.

With regard to the Water tariffs, it is worth noting that consumers who use higher quantities of water will be paying higher charges. Consumers are therefore encouraged to ensure better management of their electricity and water usage.

In respect of Sewerage tariffs for guest houses, it has been decided to abandon levies based on the number of water closets in favour of kilolitre water usage above a threshold. This is similar to tariff structures used in other municipalities.

Examples of sample accounts for different categories of households including indigents and the free basic tariffs are included in the Item being tabled today.

I wish to note that over the weekend some small discrepancies were noted in the documents placed before Council today from those that were determined or modelled in the days prior to the documents being sent to councillors. The corrected versions are accordingly being tabled and will be initialled as such.

It needs to be noted that this is a Draft Budget and accordingly all tariffs proposed are drafts and subject to comment with the Final Budget to be approved by the end of May 2022.

Cllr Wessels will provide some additional insights and inputs.

As can be seen from this Draft Budget, some bold decisions have to be taken to place George on a path towards infrastructure renewal and growth in capacities of Wastewater and Water, becoming energy secure, improving Safety, in being Green and Clean. We are actively working to grow the Revenue base through correct Billing and Collections.

This budgeted programme over the next three years, we trust will increase economic activity, grow Jobs and position George as a significant magnet intermediate city with South Africa.

Thank you, Mr Speaker,

28 March 2022

Cllr Leon van Wyk